



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Release Number: **200734026**

Release Date: 8/24/07

Date: May 30, 2007

Contact Person:

Identification Number:

Telephone Number:

Employer Identification Number:

UIL: 501(c)(3).03-08, 512.00-00

Legend:

A =

B =

C =

Dear _____ :

This letter is in response to your request for rulings on whether the implementation and operation of three new programs will adversely affect your tax exempt status or result in the imposition of unrelated business income tax.

FACTS

You are exempt under section 501(c)(3) of the Internal Revenue Code and classified as a public charity. You operate a worldwide educational program consisting of various creativity and problem solving programs for children from kindergarten through college. Thousands of young people participate in your programs annually. You indicate that your programs are designed to help participants learn the art, skill and process associated with creativity and critical thought and to develop important life skills, such as problem solving, teamwork and divergent thinking.

You indicate that you have designed three new programs to complement and extend your current programs. Program A is an adult extension of your program. You plan to involve adult teams in problem solving challenges and competitions in a manner similar to those you currently operate for youths. Program B will extend a tailored version of your creative problem solving program to very young children, focusing primarily on children from four to seven years old. Program C will add tournament level competition to your existing programs available to full-time university level students.

You have indicated that your sources of income consist primarily of gifts and contributions,

corporate sponsorships, and registration fees from program participants. The registration fees from participants in your proposed new programs, will not significantly change the proportion of support you receive from gifts, grants and contributions and program service income.

RULINGS REQUESTED

Based on the facts submitted, you requested the following rulings:

1. Your implementation and operation of Programs A, B, and C will not jeopardize your tax-exempt status under section 501(c)(3) of the Code because each will further your exempt educational purposes.
2. Amounts you receive from the implementation and operation of Programs A, B, and C will not result in imposition of the unrelated business income tax because each of the Programs is substantially related to your tax exempt educational purposes within the meaning of section 513 of the Code.

LAW

Section 501(c)(3) of the Internal Revenue Code recognizes as exempt from federal income tax entities that are organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, no part of the net earnings of which inure to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(c)(1) of the Income Tax Regulations provides that an organization will be regarded as “operated exclusively” for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in section 501(c)(3) of the Code. An organization will not be so regarded if more than an insubstantial part of its activities are not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(d)(3) of the regulations defines educational as the instruction or training of the individual for the purpose of improving or developing his capabilities.

Section 1.501(c)(3)-1(e)(1) of the regulations states that an organization exempt under section 501(c)(3) of the Code may operate a trade or business as a substantial part of its activities if the operation of such trade or business is in furtherance of the organization’s exempt purposes. Exemption will be denied to an organization that is organized or operated for the primary purpose of carrying on an unrelated trade or business.

Section 511 of the Code imposes a tax on the unrelated business taxable income (defined in section 512) of organizations described in section 501(c).

Section 512(a)(1) of the Code provides that the term “unrelated business taxable income” means the gross income derived from any unrelated trade or business which it carries on regularly.

Section 513 of the Code defines the term “unrelated trade or business” as one that is not substantially related to the exercise or performance by an organization of its charitable purpose or function constituting the basis for its exemption.

Section 1.513-1(b) of the regulations defines the economic activity that is considered to be a trade or business for the purpose of the unrelated business income tax in section 511 of the Code. In general, any activity carried on for the production of income and possessing the characteristics of a trade or business within the meaning of section 162 of the Code, that is not substantially related to the performance of the exempt organization’s exempt functions will be treated as unrelated business income.

Section 1.513-1(d)(2) of the regulations states that for the conduct of a trade or business from which a particular amount of gross income is derived to be substantially related to purposes for which exemption is granted, the production or distribution of the goods or the performance of the services from which the gross income is derived must contribute importantly to the accomplishment of those purposes.

RATIONALE

Your proposed program for adults, Program A, will be similar to the established program for children. It will teach teamwork, creativity, and problem solving skills through challenges and competitions. Program A will meet the definition of education in section 1.501(c)(3)-1(d)(3) of the regulations: training the individual for the purpose of improving or developing his capabilities. The new Program A will advance your educational purpose and contribute importantly to its accomplishment.

Your proposed program for younger children, Program B, will be an age-appropriate extension of your program for school-aged children. Program B is designed to enhance critical thinking among very young learners. It will also advance your core exempt purpose of enhancing the problem-solving skills of the participants. Program B will meet the definition of education in section 1.501(c)(3)-1(d)(3) of the regulations: training the individual for the purpose of improving or developing his capabilities. The new Program B will advance your educational purpose and contribute importantly to its accomplishment.

Your new program for college-aged students, Program C, is adjusted for the limited amount of time that college students have available, and their interest in heightened competition. Like the other programs, it is designed to enhance team building skills and creative problem-solving. It will also advance your core exempt purpose of enhancing the problem-solving skills of the participants. Program C will meet the definition of education in section 1.501(c)(3)-1(d)(3) of the regulations: training the individual for the purpose of improving or developing his capabilities.

The new Program C will advance your educational purpose and contribute importantly to its accomplishment.

Your revenues will continue to be primarily from registration fees by participants, gifts and contributions, and from some corporate sponsorships. Because Programs A, B, and C advance your exempt purpose, and contribute importantly to its accomplishment, revenue from Programs A, B, and C will be related to your exempt purpose within the meaning of section 1.513-1(d)(2) of the regulations, and will not result in unrelated business income.

RULINGS

1. Your implementation and operation of Programs A, B, and C will not jeopardize your tax-exempt status under section 501(c)(3) of the Code because each will further your exempt educational purposes.
2. Amounts you receive from the implementation and operation of Programs A, B, and C will not result in imposition of the unrelated business income tax because each of the Programs is substantially related to your tax exempt educational purposes within the meaning of section 513 of the Code.

This ruling will be made available for public inspection under section 6110 of the Code after certain deletions of identifying information are made. For details, see enclosed Notice 437, *Notice of Intention to Disclose*. A copy of this ruling with deletions that we intend to make available for public inspection is attached to Notice 437. If you disagree with our proposed deletions, you should follow the instructions in Notice 437.

This ruling is directed only to the organization that requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited by others as precedent.

If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Steven Grodnitzky
Manager, Exempt Organizations
Technical Group 1

Enclosure
Notice 437